

44-7508

DOWNTOWN DEVELOPMENT AUTHORITY

OF THE CITY OF LAPEER, MICHIGAN

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2004

AND

INDEPENDENT AUDITORS' REPORT



Layton & Richardson, P.C.  
Certified Public Accountants

# AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

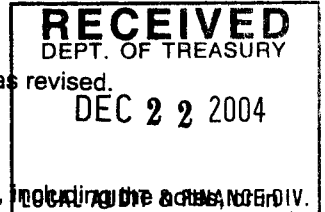
Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name City of Lapeer Downtown Development Authority	County Lapeer
Audit Date 6/30/04	Opinion Date October 18, 2004	Date Accountant Report Submitted to State: December 16, 2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, the report of comments and recommendations



You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

## We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) Layton & Richardson P.C.			
Street Address 1000 Middle Rd		City East Lansing	State MI
Accountant Signature Diane Cravel		ZIP 48822	

## CONTENTS

	PAGE
INDEPENDENT AUDITORS' REPORT	1-2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3-9
STATEMENT OF NET ASSETS AND GOVERNMENTAL FUNDS BALANCE SHEET	11
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS	12
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE	13
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES – GOVERNMENTAL FUNDS	14
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL – GENERAL OPERATIONS	15
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL – FARMERS MARKET	16
NOTES TO FINANCIAL STATEMENTS	17-20
SUPPLEMENTARY INFORMATION	
COMBINED BALANCE SHEET	22
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE	23
REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <u>GOVERNMENT AUDITING STANDARDS</u>	25
LETTER OF COMMENTS AND RECOMMENDATIONS	27



# Layton & Richardson, P.C.

Certified Public Accountants

## INDEPENDENT AUDITORS' REPORT

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Lapeer, Michigan

We have audited the accompanying basic financial statements of the governmental activities and the business-type activities of the DOWNTOWN DEVELOPMENT AUTHORITY OF THE CITY OF LAPEER, MICHIGAN as of and for the year ended June 30, 2004. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basis financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and business-type activities of the Downtown Development Authority of the City of Lapeer, Michigan, as of June 30, 2004, and the results of its operations for the year then ended, in conformity with the U.S. generally accepted accounting principles.

As described in Note 2, the Authority adopted the provisions of Governmental Accounting Standards Board Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*; Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis-For State and Local Governments*; Statement No. 36, *Recipient for Certain Shared Nonexchange Revenues*; Statement No. 37, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments: Omnibus*; Statement No. 38, *Certain Financial Statement Note Disclosures*; and GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*, as of July 1, 2002. This results in a change in the format and content of the basic financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2004, on our consideration of the Downtown Development Authority of the City of Lapeer, Michigan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis listed in the table of contents on pages 3 through 9 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standard Board. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion of the financial statements that collectively comprise the Downtown Development Authority of the City of Lapeer, Michigan's basic financial statements. The introductory section and supplementary section are presented for purposes of additional analysis and are not required part of the basic financial statements. The introductory section, as listed in the table of contents, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion on it.

*Layton & Richardson, P. C.*  
Certified Public Accountant

October 18, 2004  
East Lansing, Michigan

## Management's Discussion and Analysis

Our discussion and analysis of the Downtown Development Authority of the City of Lapeer's financial performance provides an overview of the Downtown Development Authority's financial activities for the fiscal year ended June 30, 2004. Please read it in conjunction with the Downtown Development Authority's financial statements.

### FINANCIAL HIGHLIGHTS

- Construction was substantially complete on the Downtown Improvement Project which included the installation of water main, storm sewer, resurfacing of Nepessing Street including curb and gutter, sidewalk improvements, lighting and landscaping. The city's investment in these improvements this fiscal year amounted to \$445,798. The Downtown Gateway and Lighting portion of the project consisted of three (3) entrance signs to the city's downtown and installing period street lighting on Nepessing Street from M-24 to Saginaw Street at a cost of \$439,990 in this fiscal year. These projects were also funded from an I.S.T.E.A. grant in the amount of \$290,500, UST grant in the maximum amount of \$375,000, and an M.E.D.C.G. grant in the amount of \$219,000.
- The Farmer's Market Fund within the Downtown Development Authority was eliminated and a Promotion Services Agreement was entered into with the Downtown Business Association to manage and operate this program at a cost of \$15,000.
- The Façade Loan Program provided loans to Burke's Flowers in the amount of \$20,000 and to Pinehurst Investments in the amount of \$11,500. These loans are provided to Downtown Businesses to assist them in improving their building façade's.

### USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Downtown Development Authority as a whole and present a longer-term view of the Downtown Development Authority's finances. Fund financial statements provide more detailed information about the Downtown Development Authority's funds- not the Downtown Development Authority as a whole. These statements tell how these services were financed in the short term as well as what remains for future spending.

### Reporting the Downtown Development Authority as a Whole

One of the most important questions asked about the Downtown Development Authority's finances is, "Is the Downtown Development Authority as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the Downtown Development Authority as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Downtown Development Authority's *net assets* and changes in them. You can think of the Downtown Development Authority's net assets – the difference between assets and liabilities – as one way to measure the Downtown Development Authority's financial health, or *financial position*. Over time, *increases* or *decreases* in the Downtown Development Authority's net assets are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the Downtown Development Authority's captured property tax base to assess the *overall health* of the Downtown Development Authority:

In the Statement of Net Assets and the Statement of Activities, the Downtown Development Authority is shown as a governmental activity while within the City of Lapeer's audit they are shown as a component unit:

- Governmental activities – The Downtown Development Authority's services are reported here. Property taxes finance most of these activities.

### **Reporting the Downtown Development Authority's Most Significant Funds**

The fund financial statements provide detailed information about the Downtown Development Authority's funds. The Downtown Development Authority's funds utilize the *governmental* accounting approach.

- *Governmental funds* – Most of the Downtown Development Authority's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial* assets that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the Downtown Development Authority's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Downtown Development Authority's programs. We describe the relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* in a reconciliation at the bottom of the fund financial statements.

### **THE DOWNTOWN DEVELOPMENT AUTHORITY AS A WHOLE**

Table 1 was summarized from the Downtown Development Authority Statement of Net Assets. The net assets of the Downtown Development Authority decreased from \$282,584 to \$208,200, a decrease of \$74,384 or 26.3%. In the prior year, the net assets decreased from \$287,300 to \$282,584, a decrease of \$4,716 or 1.6%.

Table 1  
Net Assets  
(In Thousands)

	<u>Governmental Activities</u> 2004	<u>Governmental Activities</u> 2003
Current and other assets	\$ 149.2	\$ 241.4
Capital assets	<u>238.3</u>	<u>244.3</u>
Total assets	<u>387.5</u>	<u>485.7</u>
Long-term debt		
Outstanding	178.0	194.9
Other liabilities	<u>1.3</u>	<u>8.2</u>
Total liabilities	<u>179.3</u>	<u>203.1</u>
Net assets:		
Invested in capital assets,		
Net of debt	60.3	49.3
Restricted	0.0	0.0
Unrestricted (deficit)	<u>147.9</u>	<u>233.3</u>
Total net assets	<u><u>\$ 208.2</u></u>	<u><u>\$ 282.6</u></u>

### Governmental Activities

As stated previously, the net assets of the Downtown Development Authority's governmental activities decreased by \$74,384 or 26.3%. Unrestricted net assets – the part of net assets that can be used to finance day –to –day operations without constraints established by debt covenants, enabling legislation, or other legal requirements-is recorded as a surplus of \$147,852.90.

Table 2 was summarized from the government-wide Statement of Activities. This table summarizes the government-wide program revenues, other revenues, and expenses of the Downtown Development Authority.



Table 2  
Changes in Net Assets  
(In Thousands)

	Governmental <u>Activities</u> <u>2004</u>	Governmental <u>Activities</u> <u>2003</u>
Revenues:		
Program revenues:		
Charges for Services	\$ 0.0	\$ 0.0
Operating grants and contributions	0.9	12.5
General revenues:		
Property taxes	28.2	26.5
Other	<u>2.8</u>	<u>7.9</u>
Total Revenues	<u>31.9</u>	<u>46.9</u>
Expenses:		
General government	\$ 101.4	\$ 121.8
Interest on long-term Debt	<u>0.0</u>	<u>0.0</u>
Total Expenses	<u>101.4</u>	<u>121.8</u>
Increase in net assets		
Before transfers	(69.5)	(74.9)
Transfers	<u>(4.9)</u>	<u>70.2</u>
Increase (Decrease) in Net Assets	(74.4)	(4.7)
Net assets, July 1	<u>282.6</u>	<u>287.3</u>
Net assets, June 30	<u><u>208.2</u></u>	<u><u>282.6</u></u>

Total revenue from all sources totaled \$31,930 of which 88.4% or 28,239 is from property taxes. Other revenues consist of unrestricted investment earnings of \$2,321 and miscellaneous revenue of \$470. The Downtown Development Authority also receives a transfer of captured taxes from the General Fund of the City of Lapeer in the amount of \$64,118 and a transfer from the Infrastructure Fund in the amount of \$10,000 to fund the Promotion Services Agreement with the Pix Arts Council. The Downtown Development Authority captured the City of Lapeer millage rate of 8.7911 and the county operation millage of 3.8941 for this fiscal year.

The governmental activities of the Downtown Development Authority had an expense of \$101,448, including depreciation expense of \$5,933, for the past fiscal year. Due to utilizing full accrual on the government-wide statements, the expenditures for capital assets including infrastructure are not recorded as expenses in the current year but are capitalized on the Statement of Net Assets and are depreciated over the useful life of the asset. Only the current

year depreciation would be included as an expense. Additionally, the Downtown Development Authority had transfers to the General Fund in the amount of \$6,385 for payment of the city administration fee and a transfer to the Major Street Fund of \$89,550 to reimburse this fund for their share of the 2002 General Obligation Bond issued to fund a portion of the cost for the Downtown Improvement Project (\$25,048), payment on their share of the Special Assessment (\$765), and payment on a portion of the construction cost for the Nepessing Street Enhancement Project (\$63,737).

The \$101,448 for governmental activities along with the transfers of \$95,935 to the general fund and major street fund of the City of Lapeer is funded from \$28,239 in property taxes. Additionally, the balance of this cost is funded from transfers from the City of Lapeer General Fund for captured taxes in the amount of \$64,118, Infrastructure Fund in the amount of \$10,000 and other revenues.

### **THE DOWNTOWN DEVELOPMENT AUTHORITY'S FUNDS**

The Downtown Development Authority District #1 received a total of \$92,357 in captured property taxes. The Downtown Development Authority District #1 expended funds on various projects this year which included the reimbursement to the City of Lapeer for debt service on the 2002 General Obligation bond issued to fund a portion of the cost of the Downtown Improvement Project in the amount of \$25,048, payment on their share of special assessment in the amount of \$765, and payment of a portion of the construction cost on the Nepessing Street Enhancement Project in the amount of \$63,737. They also expended funds for the Pix Arts Council Promotion Services Agreement in the amount of \$31,500 and repairs to the Pix Theater in the amount of \$9,585. Funds were expended in the amount of \$23,700 for a Promotion Services Agreement with the Downtown Business Association to administer the Farmer's Market Program as this fund was dissolved by the Downtown Development Authority's this fiscal year. The Downtown Development Authority received a reimbursement from the City of Lapeer General Fund for an overpayment in the prior fiscal year related to the Business Recruitment Coordinator position in the amount of \$1,878. This position was eliminated in the prior fiscal year. Other expenses of the district include legal fees of \$3,344, design committee of \$5,911, development committee of \$13,993 and other miscellaneous items in the amount of \$7,656. Additionally, the district pays an administration fee to the City of Lapeer in the amount of \$6,385 for accounting services and project management. The fund balance decreased from \$233,089 to \$149,147, a reduction of \$83,942 or 36.0%.

The Farmer's Market Fund had total revenues of \$245 which was rental income. The total expenditures were \$1,816 and related to marketing - \$297, Promotion Services Agreement with the Downtown Business Association -\$1,512, and Miscellaneous expense of \$7. The fund balance decreased from \$1,571 to \$0 a reduction of \$1,571 or 100.0%. This fund has been dissolved by the Downtown Development Authority and the administration of the Farmer's Market has been transferred to the Downtown Business Association.

### **Downtown Development Authority Budgetary Highlights**

The difference between the original budget and the amended budget for the Downtown Development Authority was an increase of \$33,612 or 11.9%, which is summarized as follows:

- The Un-appropriated Funds budget was increased by \$32,712 from available Fund Balance.
- The Property Maintenance & Utilities budget was increased by \$900 from a donation received from the Rotary Club for repainting the downtown clock.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

The Downtown Development Authority's investment in capital assets for its governmental activities as of June 30, 2004, amounts to \$238,312.74 (net of accumulated depreciation). This investment in capital assets is for land, buildings, and equipment. The Downtown Development Authority's investment in capital assets did not change from the prior fiscal year.

Major capital asset events during the current fiscal year included the following:

- Construction was substantially complete on the Downtown Improvement Project which included the installation of water main, storm sewer, resurfacing of Nepessing Street including curb and gutter, sidewalk improvements, lighting and landscaping. The city's investment in these improvements this fiscal year amounted to \$445,798. The Downtown Gateway and Lighting portion of the project consisted of three (3) entrance signs to the city's downtown and installing period street lighting on Nepessing Street from M-24 to Saginaw Street at a cost of \$439,990 in this fiscal year. These projects were also funded from an I.S.T.E.A. grant in the amount of \$290,500, UST grant in the maximum amount of \$375,000, and an M.E.D.C.G. grant in the amount of \$219,000.

### Debt

At year-end, the Downtown Development Authority's total bonded debt outstanding was at \$177,966 versus \$194,915 last year – a decrease of \$16,949 or 8.7%-as shown in Table 3.

Table 3  
Outstanding Debt at Year-End  
(In Thousands)

	Governmental Activities	
	<u>2004</u>	<u>2003</u>
General Obligation bonds (backed by the City)	<u>\$ 177.9</u>	<u>\$ 194.9</u>
Totals	<u>\$ 177.9</u>	<u>\$ 194.9</u>

The Downtown Development Authority has agreed to fund a portion of the 2002 General Obligation Bond which was issued to fund a portion of the cost of the Downtown Improvement Project. The total amount issued was \$590,000 of which \$200,000 will be funded by the Downtown Development Authority.

The city's general obligation bond rating continues to carry a Baa from Moody's Investor Services and BBB+ from Standard & Poor's, ratings that have been assigned by these national rating agencies to the City's debt since 1993.

### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

- Inflationary trends in the region compare favorably to national indices.
- Projected captured taxable value as determined by the City Assessor.

These factors were considered in preparing the Downtown Development Authority of Lapeer's budget for Fiscal Year 2004-2005.

The Downtown Development Authority reviews its current budget to determine available fund balances to be appropriated for the new year budget. This along with the projected captured taxable value from the city assessor provides the basis of establishing the annual budget. Funds are appropriated based upon project recommendations made by the City of Lapeer staff to the Downtown Development Authority Board. Funds not appropriated for specific projects are budgeted as "Contingency". These funds can then be utilized to fund any project that may develop during the fiscal year or to provide additional funding to a project if actual costs were to exceed the budget.

### **Requests for Information**

This financial report is designed to provide a general overview of the Downtown Development Authority's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of Lapeer, Director of Financial Services, 576 Liberty Park, Lapeer, MI 48446.

**DOWNTOWN DEVELOPMENT AUTHORITY OF THE  
CITY OF LAPEER, MICHIGAN**  
STATEMENT OF NET ASSETS AND GOVERNMENTAL FUNDS  
BALANCE SHEET  
JUNE 30, 2004

	GENERAL FUND	ADJUSTMENTS	STATEMENT OF NET ASSETS
<b>ASSETS</b>			
Cash-checking	\$ (2,967.87)	\$	\$ (2,967.87)
Cash-savings	151,388.12		151,388.12
Due from other funds	726.65		726.65
Capital assets		238,312.74	238,312.74
	<u>\$ 149,146.90</u>	<u>\$ 238,312.74</u>	<u>\$ 387,459.64</u>
<b>LIABILITIES AND FUND BALANCE</b>			
<b>LIABILITIES</b>			
Accrued interest	\$	\$ 1,294.00	\$ 1,294.00
Long-term liabilities			
Portion due within one year		20,338.98	20,338.98
Portion due after one year		157,627.11	157,627.11
		<u>179,260.09</u>	<u>179,260.09</u>
<b>FUND BALANCE</b>			
Invested in capital assets, net of related debt		60,346.65	60,346.65
Unreserved	149,146.90	(1,294.00)	147,852.90
	<u>149,146.90</u>	<u>59,052.65</u>	<u>208,199.55</u>
	<u>\$ 149,146.90</u>	<u>\$ 238,312.74</u>	<u>\$ 387,459.64</u>

See accompanying notes to financial statements.

**DOWNTOWN DEVELOPMENT AUTHORITY OF THE  
CITY OF LAPEER, MICHIGAN**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE  
STATEMENT OF NET ASSETS**

JUNE 30, 2004

Total fund balances-governmental funds			\$ 149,146.90
Amounts reported for governmental activities in the statement of net assets are different because			
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$ 277,690.29 and the accumulated depreciation is \$39,377.55			238,312.74
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:			
Bonds payable	\$	177,966.09	
Accrued interest		<u>1,294.00</u>	(179,260.09)
 TOTAL NET ASSETS-GOVERNMENTAL ACTIVITIES			 \$ <u><u>208,199.55</u></u>

See accompanying notes to financial statements.

**DOWNTOWN DEVELOPMENT AUTHORITY OF THE  
CITY OF LAPEER, MICHIGAN**  
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND REVENUE,  
EXPEDITURES, AND CHANGES IN FUND BALANCE  
FOR THE YEAR ENDED JUNE 30, 2004

	GENERAL FUND	ADJUSTMENTS	STATEMENT OF NET ACTIVITIES
EXPENDITURES/EXPENSES			
General government	\$ 95,626.26	\$ (112.00)	\$ 95,514.26
Depreciation		5,933.35	5,933.35
	<u>95,626.26</u>	<u>5,821.35</u>	<u>101,447.61</u>
REVENUES			
Program Revenues			
Operating grants and contributions	900.00		900.00
General Revenues			
Property taxes	28,238.76		28,238.76
Interest income	2,321.29		2,321.29
Miscellaneous	470.00		470.00
Transfers-internal activities	(21,816.56)	16,949.15	(4,867.41)
	<u>9,213.49</u>	<u>16,949.15</u>	<u>26,162.64</u>
CHANGE IN NET ASSETS	(85,512.77)	11,127.80	(74,384.97)
FUND BALANCE/NET ASSETS, JULY 1	<u>234,659.67</u>	<u>47,924.85</u>	<u>282,584.52</u>
FUND BALANCE/NET ASSETS, JUNE 30	\$ <u><u>149,146.90</u></u>	\$ <u><u>59,052.65</u></u>	\$ <u><u>208,199.55</u></u>

See accompanying notes to financial statements.

**DOWNTOWN DEVELOPMENT AUTHORITY OF THE  
CITY OF LAPEER, MICHIGAN**  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2004

Net changes in fund balances-total governmental funds	\$ (85,512.77)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures however, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives.	
Expenditures for capital assets	
Less: current year depreciation	(5,933.35)
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which proceeds exceeded repayments.	
Accrued interest	112.00
Principal payments	16,949.15
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$ <u><u>(74,384.97)</u></u>

See accompanying notes to financial statements.



**DOWNTOWN DEVELOPMENT AUTHORITY OF THE  
CITY OF LAPEER, MICHIGAN**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

GENERAL OPERATIONS

FOR THE YEAR ENDED JUNE 30, 2004

	BUDGETED AMOUNTS			VARIANCE FAVORABLE (UNFAVORABLE)
	ORIGINAL	FINAL	ACTUAL	
<b>REVENUES</b>				
Property taxes	\$ 28,655.00	\$ 28,655.00	\$ 28,238.76	\$ (416.24)
Penalty and interest			865.74	865.74
Interest income	1,000.00	1,000.00	1,455.55	455.55
Rental income	1,800.00	1,800.00	225.00	(1,575.00)
Miscellaneous	6,900.00	7,800.00	900.00	(6,900.00)
<b>TOTAL REVENUES</b>	<u>38,355.00</u>	<u>39,255.00</u>	<u>31,685.05</u>	<u>(7,569.95)</u>
<b>EXPENDITURES</b>				
Attorney	1,500.00	1,500.00	3,343.75	(1,843.75)
Design committee	7,500.00	7,500.00	5,910.97	1,589.03
Business recruitment and retention			(1,878.84)	1,878.84
Lapeer Development Corporation	500.00	500.00	500.00	
Development Committee	100,000.00	100,000.00	13,993.47	86,006.53
Downtown entertainment	2,100.00	2,100.00		2,100.00
Property maintenance and utilities	2,000.00	2,900.00	4,334.06	(1,434.06)
Special assessment - city	765.00	765.00		765.00
Promotion services agreement	49,700.00	53,700.00	55,200.00	(1,500.00)
Buildings	10,000.00	10,000.00	9,585.00	415.00
Miscellaneous	108,542.00	137,254.00	2,822.37	134,431.63
<b>TOTAL EXPENDITURES</b>	<u>282,607.00</u>	<u>316,219.00</u>	<u>93,810.78</u>	<u>222,408.22</u>
<b>DEFICIENCY OF REVENUES OVER EXPENDITURES</b>	<u>(244,252.00)</u>	<u>(276,964.00)</u>	<u>(62,125.73)</u>	<u>214,838.27</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	73,848.00	73,848.00	74,118.18	270.18
Transfers out	(36,196.00)	(36,196.00)	(95,934.74)	(59,738.74)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>37,652.00</u>	<u>37,652.00</u>	<u>(21,816.56)</u>	<u>(59,468.56)</u>
<b>DEFICIENCY OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES</b>	<u>(206,600.00)</u>	<u>(239,312.00)</u>	<u>(83,942.29)</u>	<u>155,369.71</u>
<b>FUND BALANCE, JULY 1</b>	<u>233,089.19</u>	<u>233,089.19</u>	<u>233,089.19</u>	
<b>FUND BALANCE, JUNE 30</b>	<u>\$ 26,489.19</u>	<u>\$ (6,222.81)</u>	<u>\$ 149,146.90</u>	<u>\$ 155,369.71</u>

See accompanying notes to financial statements.

**DOWNTOWN DEVELOPMENT AUTHORITY OF THE  
CITY OF LAPEER, MICHIGAN**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**

**BUDGET AND ACTUAL**

**FARMERS MARKET**

FOR THE YEAR ENDED JUNE 30, 2004

	<u>BUDGETED AMOUNTS</u>			<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>ACTUAL</u>	
REVENUES				
Rental income	\$ _____	\$ _____	\$ 245.00	\$ 245.00
EXPENDITURES				
Promotion services agreement			1,511.51	(1,511.51)
Marketing and utilities			297.29	(297.29)
Miscellaneous	_____	_____	6.68	(6.68)
TOTAL EXPENDITURES	_____	_____	1,815.48	(1,815.48)
DEFICIENCY OF REVENUES OVER EXPENDITURES			(1,570.48)	(1,570.48)
FUND BALANCE, JULY 1	1,570.48	1,570.48	1,570.48	_____
FUND BALANCE, JUNE 30	\$ 1,570.48	\$ 1,570.48	\$ _____	\$ (1,570.48)

See accompanying notes to financial statements.

**DOWNTOWN DEVELOPMENT AUTHORITY OF THE  
CITY OF LAPEER, MICHIGAN**

**NOTES TO FINANCIAL STATEMENTS**

JUNE 30, 2004

**NOTE 1: REPORTING ENTITY**

In accordance with the criteria established by the National Council on Governmental Accounting (NCGA) Statement 3, the Downtown Development Authority is considered a component unit of the City of Lapeer, Michigan for financial accounting and reporting purposes. These criteria include: the extent of oversight responsibility, selection of governing authority, designation of management, the ability of the City to significantly influence operations, the accountability for fiscal matters including the level of City financing and/or moral and legal responsibility for long-term debt.

The financial statements of the Downtown Development Authority of the City of Lapeer are presented as the financial statements of a fund which is an integral part of the financial reporting oversight unit of the City of Lapeer, Michigan.

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Downtown Development Authority conform to U.S. generally accepted accounting principles as applicable to governmental units. The summary of the more significant accounting policies are presented to assist the reader in interpreting the financial statements and other data in this report.

**A. Government-Wide and Fund Financial Statement**

The government-wide financial statement (i.e. the statements of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government of the Downtown Development Authority of the City of Lapeer. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for services.

The statement of activities demonstrates the degree to which the direct expenses of a function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

**B. Measurement Focus, Basis of Accounting and Financial Statements**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures and compensated absences, and claims and judgments are recorded only when payment is due.

**DOWNTOWN DEVELOPMENT AUTHORITY OF THE  
CITY OF LAPEER, MICHIGAN**

**NOTES TO FINANCIAL STATEMENTS - Continued**

JUNE 30, 2004

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Concluded**

B. Measurement Focus, Basis of Accounting and Financial Statements - Concluded

Property taxes, franchise fees, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Downtown Development Authority.

C. Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

D. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. streets, bridges, and sidewalks), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the Downtown Development Authority as assets with an initial, individual cost of \$5,000 or more and an estimated useful life in excess of one year.

All capital assets are valued at historical cost or estimated historical cost if actual cost is not available. Donated capital assets are recorded at estimated fair market value on the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend assets lives are not capitalized.

Depreciation of all exhaustible capital assets used is charged as an expense against their operations in government-wide statements. Accumulated depreciation is reported on the government-wide statement. The straight-line depreciation method is applied over the estimated useful life of fixed assets.

The straight-line depreciation method is used for all depreciable capital assets. The estimated useful lives for capital assets are displayed in the table below:

ASSET CLASS	DEPREICIABLE LIFE
Land	n/a
Land improvement	10-20 years
Buildings	10-40 years

E. Long-Term Liabilities

In the government-wide financial statement, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is repored as other financing sources. Premiums received on debt issuances are reported as other financing sources. Bond discounts are reported as other financing uses. Issuances costs, whether or not withheld from the actual debt received, are reported as debt service.

**DOWNTOWN DEVELOPMENT AUTHORITY OF THE  
CITY OF LAPEER, MICHIGAN**

NOTES TO FINANCIAL STATEMENTS - Continued

JUNE 30, 2004

**NOTE 3: CASH AND INVESTMENTS**

Investments consisted principally of an interest bearing savings account at June 30, 2004. Investment income is credited to the cash account as it is received.

Cash in bank of the Downtown Development Authority as of June 30, is as follows:

	2004	
Cash in bank		\$ <u>148,420.25</u>

State statutes authorize the City Treasurer to invest in obligations of the U.S. Treasury, agencies and instrumentalities; certificates of deposit, savings accounts, deposit accounts or depository receipts of a bank which is a member of the Federal Deposit Insurance Corporation (FDIC); commercial paper rated in the three highest rate classifications of two rating services; United States government or federal agency obligation repurchase agreements; and mutual funds composed of investments which are legal for direct investment by local units of government in Michigan.

The Authority's investments (including those presented as cash) are categorized as follows to give an indication of the level of risk assumed by the Authority. Category 1 includes deposits and investments that are insured, registered or for which the securities are held by the Authority or its agent in the Authority's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the brokers' or dealers' trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent but not in the City's name.

At June 30, 2004, the City's investments were categorized as follows:

Category 1	\$	133,846.91
Category 2		19,438.31

The Authority has adopted a formal investment policy as required by Act 20, P.A. 1943 as amended, that complies with State law.

**NOTE 4: INTERFUND RECEIVABLES AND PAYABLES**

Interfund balances at June 30, 2004, are as follows:

FUND	DUE TO	FUND	DUE FROM
Downtown Dev. Authority	\$ <u>726.65</u>	General	\$ <u>726.65</u>

**NOTE 5: CHANGES IN LONG-TERM DEBT**

Changes in long-term debt of the Authority are as follows:

	BALANCE 7-1-03	ADDITIONS	DELETIONS	BALANCE 6-30-04
2002 General Obligation Tax Bond	\$ <u>194,915.24</u>	\$ _____	\$ <u>16,949.15</u>	\$ <u>177,966.09</u>

**DOWNTOWN DEVELOPMENT AUTHORITY OF THE  
CITY OF LAPEER, MICHIGAN**

NOTES TO FINANCIAL STATEMENTS - Concluded

JUNE 30, 2004

**NOTE 5: CHANGES IN LONG-TERM DEBT - Concluded**

The annual requirements to amortize long-term debt outstanding as of June 30, 2004, including interest of \$33,020.33 are as follows:

YEAR ENDING JUNE 30,	GENERAL OBLIGATION
2005	\$ 27,645.76
2006	26,781.35
2007	25,916.94
2008	25,052.54
2009	24,183.05
Thereafter	<u>81,406.78</u>
	<u>\$ 210,986.42</u>

**NOTE 6: CAPITAL ASSETS**

A summary of changes in the Authority's capital assets is as follows:

	JULY 1, 2003	ADDITIONS	DELETIONS	JUNE 30, 2004
Capital assets not being depreciated				
Land	\$ <u>154,000.00</u>	\$ _____	\$ _____	\$ <u>154,000.00</u>
Capital assets being depreciated				
Buildings	118,414.00			118,414.00
Equipment	<u>5,276.29</u>	_____	_____	<u>5,276.29</u>
Total capital assets being depreciated	<u>123,690.29</u>	_____	_____	<u>123,690.29</u>
Less: Accumulated depreciation				
Buildings	28,338.25	5,763.01		34,101.26
Equipment	<u>5,105.95</u>	<u>170.34</u>	_____	<u>5,276.29</u>
Total accumulated depreciation	<u>33,444.20</u>	<u>5,933.35</u>	_____	<u>39,377.55</u>
Total capital assets being depreciated, net	<u>90,246.09</u>	( <u>5,933.35</u> )	_____	<u>84,312.74</u>
Net capital assets	\$ <u>244,246.09</u>	\$ ( <u>5,933.35</u> )	\$ _____	\$ <u>238,312.74</u>

**NOTE 7: OPERATING TRANSFERS**

The operating transfers between funds are as follows:

FUND	TRANSFER IN	FUND	TRANSFER OUT
Downtown Dev. Authority	\$ <u>64,118.19</u>	General	\$ <u>64,118.19</u>
Debt Service		Downtown Dev.	95,934.74
General	\$ 6,385.00	Authority	\$ <u>95,934.74</u>
Major street	<u>89,549.74</u>		
TOTAL	<u>\$ 95,934.74</u>	TOTAL	<u>\$ 95,934.74</u>
Downtown Development Authority	\$ <u>10,000.00</u>	Capital Improvement	\$ <u>10,000.00</u>

SUPPLEMENTARY INFORMATION

**DOWNTOWN DEVELOPMENT AUTHORITY OF THE  
CITY OF LAPEER, MICHIGAN  
COMBINED BALANCE SHEET  
JUNE 30, 2004**

	GENERAL OPERATIONS	FARMER'S MARKET	TOTAL
ASSETS			
Cash in checking	\$ (2,967.87)	\$	\$ (2,967.87)
Cash in savings	151,388.12		151,388.12
Due from other funds	726.65		726.65
TOTAL ASSETS	\$ 149,146.90	\$	\$ 149,146.90
FUND BALANCE			
Unreserved - undesignated	\$ 149,146.90	\$	\$ 149,146.90



**DOWNTOWN DEVELOPMENT AUTHORITY OF THE  
CITY OF LAPEER, MICHIGAN**  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
FOR THE YEAR ENDED JUNE 30, 2004

	GENERAL OPERATIONS	FARMER'S MARKET	TOTAL
REVENUES			
Property taxes	\$ 29,003.20	\$	\$ 29,003.20
Penalty and interest	865.74		865.74
Interest income	1,455.55		1,455.55
Rental income	225.00	245.00	470.00
Miscellaneous	900.00		900.00
TOTAL REVENUES	<u>32,449.49</u>	<u>245.00</u>	<u>32,694.49</u>
EXPENDITURES			
Attorney	3,343.75		3,343.75
Design committee	5,910.97		5,910.97
Business recruitment and retention	(1,878.84)		(1,878.84)
Lapeer Development Corporation	500.00		500.00
Development Committee	13,993.47		13,993.47
Marketing		297.29	297.29
Property maintenance and utilities	4,334.06		4,334.06
Special assessment - city	764.44		764.44
Promotion services agreement	55,200.00	1,511.51	56,711.51
Buildings	9,585.00		9,585.00
Miscellaneous	2,822.37	6.68	2,829.05
TOTAL EXPENDITURES	<u>94,575.22</u>	<u>1,815.48</u>	<u>96,390.70</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES	<u>(62,125.73)</u>	<u>(1,570.48)</u>	<u>(63,696.21)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	74,118.18		74,118.18
Transfers out	(95,934.74)		(95,934.74)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(21,816.56)</u>		<u>(21,816.56)</u>
DEFICIENCY OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	<u>(83,942.29)</u>	<u>(1,570.48)</u>	<u>(85,512.77)</u>
FUND BALANCE, JULY 1	<u>233,089.19</u>	<u>1,570.48</u>	<u>234,659.67</u>
FUND BALANCE, JUNE 30	<u>\$ 149,146.90</u>	<u>\$</u>	<u>\$ 149,146.90</u>



# Layton & Richardson, P.C.

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## REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Honorable Mayor and City Commissioners  
City of Lapeer  
Lapeer, Michigan

We have audited the general purpose financial statements of the DOWNTOWN DEVELOPMENT AUTHORITY OF THE CITY OF LAPEER, MICHIGAN, as of and for the year ended June 30, 2004, and have issued our report thereon dated October 18, 2004. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

### Compliance

As part of obtaining reasonable assurance about whether Downtown Development Authority of the City of Lapeer's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered Downtown Development Authority of the City of Lapeer's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

This report is intended for the information of the City Commissioners, management, and State and Federal Agencies. However, this report is a matter of public record and its distribution is not limited.

East Lansing, Michigan  
October 18, 2004

*Layton & Richardson, P.C.*  
Certified Public Accountant

**Layton & Richardson, P.C.**  
*Certified Public Accountants*

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LETTER OF COMMENTS AND RECOMMENDATIONS

Honorable Mayor and City Commissioners  
City of Lapeer  
Lapeer, Michigan

We have audited the financial statements of the Downtown Development Authority of the City of Lapeer, Michigan for the year ended June 30, 2004, and have issued our report on those statements.

As part of the audit process, we tested and evaluated the system of internal accounting controls and the procedures used to record the financial transactions of the Downtown Development Authority of the City of Lapeer. These tests and evaluations are important to the audit process because they serve as the basis for our opinion on the reliability and accuracy of the financial statements. No conditions were observed during the audit which are believed to be material weaknesses in the management control system.

We appreciate the cooperation and assistance provided to us by the management and staff of the Downtown Development Authority of the City of Lapeer during the audit and we thank them.

Very truly yours,

*Layton & Richardson, P.C.*  
Certified Public Accountants

East Lansing, Michigan  
October 18, 2004